**Government of**
**Newfoundland and Labrador**

# Prospects `98
# "The Future is in Our Hands"

**Premier Brian Tobin**

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***OUR RECORD TO DATE***

Last March, after the first year of this administration, the Government released a report - *The Record to Date* - of the substantial progress we had made on our platform commitments. In it, we promised that we would continue with updates on the Government's progress throughout our mandate.

I am pleased to have this opportunity, once again, to set out this Government's direction, and to update you on the progress we continue to make since our election only two short years ago.

In a few days, I'll be leaving to join the Prime Minister and the other Premiers on a trade mission to South America. I'm very pleased to report to you that, in the three years since these Team Canada trade missions began, Newfoundland and Labrador has gone from the smallest private sector delegation from Atlantic Canada, to the largest private sector delegation this year.

Perhaps that small but important fact is symbolic of something significant happening in Newfoundland and Labrador. There is - after years of decline, in particular since the groundfish failure of 1992 - a growing level of confidence emerging in our province.

Two years ago, when I was given the privilege of taking up the duties of the Premier's Office and of shaping a government, I said that profound change in our society can never be legislated. It must come from the people themselves.

I believed then, as I believe now, that only when we change the way we see ourselves, and when we change the way others see us, will we realize our full potential - to live in a unique society second to none in this country.

We must never accept the seductive notion that someone else, somewhere else, has written the script for this province - a script of poverty and despair. We have to recognize that ultimately *we* are the authors of our own fortune or misfortune. Our future is in *our* hands.

If this is true of society, it is no less true of governments. It is not enough to talk about what could have been had the fishery not failed. It is not enough to note the costly mistakes of the past - Churchill Falls, Come By Chance, the Sprung Greenhouse or the dynamite blasts on either side of the Strait of Belle Isle.

Each of these, in their own way, are symbols of opportunities lost, sometimes at an enormous cost to our province. We must learn from these decisions because they were our decisions. Sometimes they were decisions of Liberal governments. Sometimes they were decisions of Conservative governments. In either case, they were always the decisions of the Government of Newfoundland and Labrador.

1998 will again be a year of decision for our province. The decisions we take this year must stand the test of time. We can no longer afford to make costly decisions designed to solve short-term problems. We can no longer afford short-term solutions to the long-term problems we must face head-on.

**A THREE YEAR BUDGET**

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During the election campaign of 1996, we said in our Platform:

> *1996 and 1997 will be difficult years for our province's economy. They will be difficult years for the provincial government's finances.*
>
> *The outlook for the years that follow is a much improved economic and fiscal situation. Strong economic growth is expected in 1998, 1999, 2000 and thereafter.*
>
> *However, the provincial government's overall revenues will grow more slowly than the economy, in part because equalisation payments go down as receipts from taxes and royalties go up.*
>
> *The new Liberal government will maintain a sound fiscal position in 1996 and 1997 and will continue to move toward a balanced budget during its term of office.*

That's what we've done. In the 1997 provincial budget, we laid out a three-year fiscal framework that will put our finances on the right track. Government made a commitment to prudent financial management, while making strategic investments in key areas - areas that people had told us were priorities - health, education, and other social programs.

We made difficult but responsible decisions that, at the end of this three-year period, will move us toward a sustainable balanced budget.

And we've seen several major banks issue positive economic forecasts. In October, the Toronto Dominion Bank forecasted that "Newfoundland (and Labrador) will be the top provincial performer in both 1998 and 1999...," and that the province would experience "real economic growth of about 5 per cent per year, spurred by rising crude oil production at the Hibernia oilfield, construction work on the Terra Nova offshore oil project and the development of the Voisey's Bay nickel deposit."

These third party forecasts are encouraging, but a quick look around the province is enough to see that the turnaround has already begun.

The Province of Newfoundland and Labrador was in a good fiscal position at the mid-point of the budget year. For the second year in a row, there was no need to contemplate pre-Christmas layoffs, which have haunted so many public service workers and their families over the years.

There was encouraging news about employment in the November 1997 labour force statistics - a 3.8 per cent increase in employment in the province - about 7,100 jobs - as well as a 1.5 per cent decline in the unemployment rate. Only two other provinces, Saskatchewan and Alberta posted stronger employment growth.

The HST - which represents the single largest tax break this province has seen since Confederation - has been doing its job of stimulating the economy. This can be seen in the 6.6 per cent increase in retail trade from January to October 1997, over the same period in 1996. Car sales over the same period were up 32.6 per cent.

There is a renewed confidence. People are making new purchases, creating new jobs and further stimulating the economy. This is a time for optimism, cautious optimism. These are important gains, but, as I noted earlier, the larger gains in revenues and employment are still a few years away.

While the province will see some new jobs and economic activity in the next two or three years, it will be several more years before the government begins to reap financial rewards in the form of significant royalties and taxes.

In the meantime, it is vital to stay the course. We must resist demands for major new expenditures in order to make sure the old cycle of deficit and debt is avoided. That way, when the benefits of Hibernia, Voisey's Bay and other developments are actually in Government's hands, those revenues can be used for the benefit of the people of this province - in health, education and other essential services.

## A DEVELOPING ECONOMY

### *Hibernia*

Last year, we saw first oil at Hibernia. The dream of an oil and gas industry, which began more than 30 years ago, finally materialized. It didn't just meet expectations - it exceeded expectations.

Already, Mobil Oil has upgraded the total reserve of Hibernia by more than 100 million barrels to 750 million barrels of oil. They have also upgraded the daily production at Hibernia from 120,000 barrels a day to 180,000 barrels a day at peak production. Hibernia will deliver benefits to this province more quickly than had been anticipated.

### *Terra Nova*

But Hibernia is a one-of-a-kind project. It was brought about by a series of federal and provincial government financial instruments that are no longer available to the oil and gas industry.

The real test of the viability of the oil and gas industry is Terra Nova. Terra Nova will be financed 100 per cent by the private sector. Terra Nova will demonstrate that the industry has taken hold in the Newfoundland and Labrador offshore.

Terra Nova is expected to receive, within a matter of weeks, final project sanction for the billions required to bring this field into production.

### *Whiterose*

The project managers of the Whiterose field, Husky Oil, are expected to be in St. John's in the next few weeks to officially open their new offices. This is part of their Whiterose initiative, beginning with delineation drilling of the field.

### *Exploration*

Exploration is on the rise, too. Amoco, Husky, and Petro-Canada, (Petro-Canada in partnership with Mobil, Chevron and Norsk Hydro), are involved in the most exploration seen on the Grand Banks in five years. Indeed, Petro-Canada and Norsk Hydro have founded a consortium to concentrate on exploration of the Jeanne d'Arc Basin as a major new oil and gas development area for North America.

Onshore, there is renewed activity on the west coast of the island, where companies such as PanCanadian Petroleum, Vulcan Minerals, and Inglewood Resources are in the process of collecting data and planning wells.

### *An Oil & Gas Industry*

As many of you know, Norsk Hydro has recently opened their new offices in St. John's, as part of their

commitment to participate in the development of the offshore industry in this province. Petro Canada established their offices in St. John's, earlier in 1997.

When you couple these new office locations in St. John's with the presence of HMDC, you have a clear recognition by the oil and gas industry that the Newfoundland and Labrador offshore can no longer be managed as a branch plant operation from Texas or from Alberta. This province is now part of a triangle in North America that extends south from Texas, west to Alberta, and east to Newfoundland and Labrador.

***Tourism***

1997 was also a tremendous tourism year for our province. The Cabot celebrations, by any measure, must be considered a success. They have raised our province's profile in North America and around the world and have given us a base upon which to build a tourist industry for our unique destination and product.

The Matthew Landfall, the Queen's Visit, the Festival 500 "Sharing of the Voices", and the many other venues that made up the Cabot year stand as solid evidence of our ability to deliver a product that is first class.

***Information Technology***

Our I.T. sector continued to grow in 1997 and now accounts for more than a half a billion dollars in sales and 6,000 jobs in the province. These companies reflect our spirit of entrepreneurship at its best and brightest. Newfoundland and Labrador companies are providing telecommunications to the Hibernia platform, digital marine charts to the Korean government, and health care technology to American hospitals, just to name a few.

***Softworld 98***

In the fall of this year, that sector will play host to Softworld 98 in St. John's. As many as 500 companies from dozens of countries in North America, Europe and Asia will be here to do business with each other at the North American showcase event for this industry. This will be our opportunity to showcase ourselves and to invite new partners to invest here in this province.

***Manufacturing***

Manufacturing of goods remains a growing sector in Newfoundland and Labrador. The value of manufacturing shipments in the province from January to October of 1997 was $1.3 billion, an increase of 6 per cent over the same period in 1996. Plastics have increased by 20 per cent, printing and publishing goods have increased by 13 per cent, and other products, including high-tech, have increased by 26 per cent.

***EDGE***

Some of the continued success of the manufacturing sector can be attributed to the EDGE program. It has garnered $65.5 million of investment in this province, and helped 64 companies establish themselves, creating 921 jobs for Newfoundlanders and Labradorians.

***KPMG Study***

The good word is spreading about Newfoundland and Labrador. In October, KPMG issued a report identifying St. John's as the best city for business in North America and Europe, from among 42 cities reviewed.

## FISHERY

### *Cod stocks*

A significant recovery of our cod stocks is not expected. The Northern cod stock, in particular, has shown little sign of recovery. We won't know for some weeks yet the level of fishing to be conducted on the South Coast and in the Gulf.

### *Crab & Shrimp*

But the fishery will make new strides in 1998. The crab and shrimp sectors show continued promise for this year. Indeed, the shrimp fishery has the potential to add at least 100 million dollars of new wealth to the province's fishery. Several thousand fishermen and plant workers should be able to make a living from the new inshore shrimp fishery that is being developed this year. This province received 90 per cent of the federal government's new inshore shrimp allocation of 21,450 metric tonnes. Already FPI, and others, are announcing substantial new investments to take advantage of these new quotas.

### *Seal Fishery*

The seal fishery will also add in excess of 20 million dollars to our economy again this year. I believe we can take some satisfaction that, despite the efforts and propaganda campaign of the IFAW, the people of Canada have largely ignored the call for protests.

Indeed, Canadians, and many others around the world, have come to recognize the IFAW's campaign for the money-making venture that it is.

Our job is to ensure the seal hunt is prosecuted responsibly. The people of this province have stood behind our sealers. It is important that all those who participate in this year's hunt stand solidly behind the law. The seal hunt will never be hurt by self-promoters like the IFAW. It can, and will be, hurt by that small minority who break the rules and, in the process, put the entire industry at risk. My plea this year, as the season begins, is for all of those who participate to exercise every caution necessary to ensure that the 1998 hunt is a humane one.

### *TAGS*

Another important issue that will require an early decision this year is the federal government's announced intention to replace the TAGS program with a new series of measures to assist those who have been displaced from the fishery. I believe such a new program should provide income support, early retirement measures and licence retirement. It should also include funds for economic development in rural Newfoundland and Labrador. Rural Newfoundland and Labrador has survived for centuries. It will continue on for centuries more. Right now, what rural communities need is a hand-up, not a hand-out.

## MAKING DECISIONS

We must learn from the mistakes of the past. Our challenge is to avoid repeating those mistakes.

It is also our challenge not to be afraid of making decisions just because they are difficult and will be examined for decades to come. The easiest way to avoid ever negotiating a bad agreement is to never negotiate any agreement. Such an approach, while tempting, is neither responsible nor relevant given both the problems and

potential facing this province.

In the last year, the Government was called upon to make several decisions that were difficult but necessary:

- ***Education Reform*** - We broke the deadlock on school reform by taking a clear question to the people on Term 17. There was overwhelming support for a single school system for all children regardless of religious affiliation. After the House of Assembly's unanimous approval of the new Term 17, and Parliament's endorsement, Government acted quickly to revise the *Schools Act* and has proceeded with plans for a new school system to be up and ready for the new school year.

- ***Land Claims*** - We negotiated a precedent-setting agreement with the Labrador Inuit Association that will lead us to an agreement-in-principle. This achievement is a groundbreaking consensus on issues that have held up the process for years. The Government is also intent on resolving the outstanding claim of the Labrador Innu.

- ***Trans Labrador Highway*** - We negotiated a 340 million dollar agreement which will open up Labrador to new, undiscovered opportunities, and will provide a vital piece of infrastructure that the people of Labrador have been requesting for decades.

- We amended the Human Rights Code to guarantee non-discrimination on the basis of sexual orientation.

- We instituted the first French language school board for the province.

- We stood firm, and got, a Transshipment facility at Whiffen Head that will play an integral part in the foundation of an oil industry in this province. It will employ 120 people during its operation with a net benefit to the economy of about half a billion dollars for the Hibernia and Terra Nova projects.

- We sold the Marystown Shipyard to a private operator who has committed 5 million to 15 million dollars in immediate improvements, guaranteed at least 600 jobs, and, therefore, secured renewed prosperity on the Burin Peninsula; and, we sold Newfoundland Farm Products, to the farmers who know the industry best, and will invest their own money to build a profitable operation.

- We lowered our sales tax from 19.8 to 15 per cent, and negotiated a financial compensation package with the federal government that put in place the HST.

- We took the entire government through a Program Review exercise, cut our costs, reduced our personnel and put in place a three-year plan to move us toward a balanced budget.

All of these, and many other decisions we made, were difficult to achieve. All were necessary.

**VOISEY'S BAY**

Difficult decisions await us again this year. Two require that Government make judgments early this year, and both will have long-term implications for our province. In some ways, the two may be linked.

The first involves the future development of Voisey's Bay. I believe we are all aware that the fundamentals surrounding the Voisey's Bay development have changed somewhat during 1997. The price of nickel has declined significantly and the value of INCO's shares has declined as well. Some analysts have pointed out that

the market capitalization of INCO is now less that the price paid for the Voisey's Bay deposit.

This has led to much speculation, some of it by INCO spokesmen, about how to proceed with the development. Some have suggested that the mine proceed first and that the construction of a smelter/refinery complex proceed later, if at all. There are those who believe, given the new fundamentals, that the jobs and billion dollar investment associated with the mine development are satisfactory under the circumstances.

It is important the Government and people of this province clearly reject any scenario other than the development of both the mine and mine mill, and the smelter/refinery complex. We must never agree to develop the mine unless the smelter/refinery complex proceeds at the same time.

The richest part of the Voisey's Bay deposit is the open pit ovoid. If we allow the ovoid to be mined without a smelter development, I do not believe a smelter/refinery will ever be built at Argentia.

The position of government is straightforward and clear: if there is no smelter/refinery, there will be no mine at Voisey's Bay. I have told Dr. Mike Sopko and the senior INCO team that this matter is non-negotiable for the Government of Newfoundland and Labrador. I believe it is also non-negotiable for the people of Newfoundland and Labrador.

Will such a hard line position on the part of this province delay the Voisey's Bay project and the jobs it could bring? I cannot say with certainty. It may or it may not. However, I do know this: if we do not negotiate full and fair benefits for our province before this project begins, those benefits will be impossible to achieve later.

Those who would put achieving some benefits now above full benefits later need look no further than the Upper Churchill power contract. Voisey's Bay, like Churchill Falls or the Lower Churchill, is such a rich resource that we must always have the patience to get it right the first time.

**LOWER CHURCHILL**

This leads to the second matter that Government will have to deal with over the next few weeks or months. As you know, last year I began a campaign to have the unbalanced and unacceptable relationship between Newfoundland and Labrador and the province of Quebec on the Upper Churchill changed.

The current contract will see our province, within a few years, subsidizing the operation of Churchill Falls as the rates paid for power are reduced to the point where revenues are insufficient to cover operating expenses. Newfoundland and Labrador Hydro estimates that CFLCo. will suffer operating losses totalling 300 million dollars over the remaining life of the contract.

This is obviously unacceptable. Every Premier, and every government, has worked hard to rectify this situation. Both legal and negotiated solutions have eluded us so far.

Last January, during the Team Canada trade mission, the Premier of Quebec, Lucien Bouchard, and I agreed to put in place teams of officials to explore whether or not there is any basis for formal negotiations between our two provinces on future hydro developments which would benefit both provinces. The teams of officials have worked hard and have reported on their exploratory talks on a regular basis.

The discussions have reached a stage where the Government of Newfoundland and Labrador will soon have to decide to suspend these discussions or enter into formal negotiations. There are still a number of outstanding

matters to be addressed before a final decision can be made.

However, I can tell you this - whatever happens, there will be no repeat of the Upper Churchill contract. There are a number of principles which must underlie any new agreements.

They include the following:

1. Lower Churchill development must include both Gull Island and Muskrat Falls, providing a block of power sufficient to meet the future needs of both Labrador and the Island.

2. Provision must be made for a transmission line capable of moving up to 800 megawatts of power to the Island.

3. There can be no long-term power contracts, like the Upper Churchill. Instead, a floor price must be guaranteed. Any windfall from future price increases must flow to Newfoundland and Labrador.

4. Measures must be implemented to add value at the Upper Churchill to ensure that Newfoundland and Labrador will gain substantial value from operations at the Upper Churchill.

5. The jobs and benefits associated with the Newfoundland and Labrador portion of any proposed project will flow to Newfoundland and Labrador-based companies.

6. Power rates for Newfoundland and Labrador arising out of any development must allow for the stabilization of both domestic and industrial rates.

This list of principles, while incomplete, gives you an idea of the kind of objectives the Government has set for itself prior to entering into any formal negotiations. If these objectives cannot be realized, there is, in my mind, no basis upon which any government of this province can enter into future developments with the Government of Quebec.

**A RENEWED MANDATE**

I stated at the beginning that we must learn from the mistakes of the past. This is fundamental. However, I also said we must never allow fear of failure to prevent us from seeking new agreements, no matter how difficult they may be to achieve.

The decisions I, and every other elected member of the legislature, make in the next few years may shape the future of Newfoundland and Labrador for generations to come.

As I, and my colleagues in the Government, begin this new year, we renew our obligation to exercise the mandate and trust given to us with care, with caution and, where appropriate, with determination.

Thank you.